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SUBJECT: DECENTRALIZATION: GOVERNMENT AMBIVALENCE AND
REGIONAL (IN)CAPACITY

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[1](#)1. (SBU) Summary: Decentralization -- the transfer of administrative responsibility from the national government to regions and municipalities -- is a cornerstone of the Garcia government's state reform plan. In pursuit of this policy, President Garcia recently signed a decree transferring 185 functions from the central government to regional and municipal governments by the end of 2007. Despite the Garcia Administration's public commitment to decentralization, many observers believe it is ambivalent about implementation, partly because some regional and municipal governments represent rival and sometimes radical political groups. Analysts are also concerned about the administrative incapacity of local governments, and believe transferring functions without equivalent financial resources or needed technical support is a recipe for failure. The success of decentralization policy is likely to vary from region to region, primarily as a function of the potential for economic development there. By pursuing accelerated administrative decentralization, the Garcia government hopes to minimize its responsibility for social conflicts in newly "decentralized" regions -- but it is unlikely to escape such responsibility in the end. End Summary.

Hypercentralization

[1](#)2. (U) "Lima is Peru, and Peru is Lima" goes a national refrain. Home to roughly 9 million people (more than one third of the country's population), Lima is the fulcrum and reference of national political life, the undisputed economic center (producing close to half of the gross national product), the sole financial hub, and the clear social and cultural capital. No other Peruvian city comes close to matching its multifarious heft. As one national politician noted, Lima generates enormous centripetal pressure that "sucks" everything toward its vortex: investment, people, business, construction, traffic. Partly to counteract the negative consequences of such hypercentralization, and to redress the acute underdevelopment of the southern highlands and Amazonian regions in particular, decentralization has been pursued in fits and starts by various administrations in

the past. After passage of a framework decentralization law, in 2002 Regional Presidents were chosen in popular elections (rather than appointed by the central government) for the first time.

Decentralization as Cornerstone

¶3. (SBU) Under the Garcia administration, decentralization has emerged as a cornerstone of the government's state reform plan. This effort aims to bring government closer to the governed and to respond to widespread demands for more and better public services, particularly in regions virtually abandoned by the state and left out of Peru's economic surge.

To underscore his commitment to this process, in April President Garcia signed an executive decree to transfer 185 functions from the central government to regional and municipal governments by the end of 2007. This represented a significant acceleration of a timetable that was initially set to take place over Garcia's full five year presidential term. The GOP set up 20 decentralization objectives or "shocks" to help achieve this goal (Ref A). Garcia signed the plan in the northern region of Piura, the first stop of a region-by-region tour intended to highlight his desire to push government out of the capital city and into the provinces. Spurred by the executive, Congress has also approved supplemental credits to funnel state resources to the sub-national level.

¶4. (SBU) In response to pressure from regional presidents and to help free up the significant moneys that are sitting idle in government coffers, Garcia recently signed a separate supreme decree limiting the role of the onerous System of National Public Investments (SNIP) (and the state public procurement system) in approving development projects in

education, health, transportation, communication and agriculture for regions and municipalities (Ref C). After discussions with the Finance Minister, who has responsibility for the SNIP function, the President rescinded the decree and subsequently issued a revised one that limited SNIP intervention to large-scale regional projects. The revised decree also formed two commissions tasked with making recommendations to streamline the SNIP and government acquisitions processes in orQo make them more user-friendly (particularly) for regional and local officials. Many analysts believe that in issuing the decree Garcia was motivated by the desire to see that urgently needed and impatiently awaited regional development and infrastructure projects were kicked off with all possible dispatch.

Government Ambivalence

¶5. (SBU) Despite the Garcia Administration's public and private statements of commitment to decentralization, analysts suspect it is ambivalent about implementation. Grover Pango, head of the Executive Secretariat for Decentralization, recently underscored to us the government's genuine commitment to decentralization. And yet the Secretariat he heads -- now part of the PM's office -- was

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created out of the formerly autonomous National Council for Decentralization (CND), a move that effectively and ironically recentralized this pivotal function (Ref C). (Note: Observers acknowledge that the former CND was not doing its job and therefore needed to be overhauled. After the CND was disbanded, the country's 25 regional presidents formed the "National Assembly of Regional Governments" as a vehicle to maintain leverage and to continue pressing the national government for effective decentralization. End Note.) Pango added that he was being tasked to implement the accelerated decentralization schedule with a skeleton staff, most of whom had little experience with the critical issues in question. Some analysts say that the government's mixed signals reflect real internal divisions, with several top government officials firmly in favor (PM Del Castillo, FM Garcia Belaunde) and others more inclined to maintain strong

centralized control. Many believe that President Garcia himself -- at once keenly aware that decentralization is an urgent priority and yet instinctively centralist in his approach to governing -- embodies this ambivalence.

16. (SBU) The government's ambivalence was reinforced by the results of the November 2006 regional and municipal elections, in which a plethora of local leaders representing mostly narrow local interests gained power and the ruling APRA party captured only 2 of 25 regional presidencies. The government now has to deal with a mixed bag of regional forces, some friendly, some hostile, and many in between. The result so far has been predictable: the government has willingly transferred functions in some cases while proving reluctant to do so in others. The recent civil unrest in Ancash was a case in point. In April, the Regional Governor of Ancash Cesar Alvarez -- widely seen as a hot-head and openly hostile to the APRA government -- organized a blockade of the Pan-America Highway in retaliation for the central government's refusal to transfer administration and execution of the Chincas Hydroelectric/Irrigation Project to his government -- giving it instead to a small municipal government headed by an APRA ally. Alvarez was particularly angry because seven other National Institute of Development (INADE) projects of similar scope had gone (as they should) to regional governments. This situation fueled a violent protest that disrupted one of the country's main thoroughfares for several days and resulted in at least two deaths. (The national government has since decided to transfer the project to the regional administration.)

Obstacles to Decentralization

17. (U) Many analysts are further concerned about two related obstacles to effective decentralization. The first is the administrative incapacity of regional and municipal governments. Regional President of Junin (and current head of the National Assembly of Regional Presidents) Vladimiro

Huaroc recently told us he wanted the regional government to assume greater responsibilities quickly because it understood the region's priority needs much better than the central government did. At the same time, he was wary about the ability of the government's administrative apparatus, which he characterized as dilapidated and dysfunctional, to handle the additional load. Cusco Regional President Hugo Gonzales Sayan echoed this view, and went on to describe his government's permanent bureaucracy as unenthusiastic, unmotivated and unlikely to want to assume greater responsibilities in the future. (Comment: In support of decentralization, the USG, through the USAID-funded PRODES program, has been training regional and municipal government officials to strengthen their capacity, including in the design and implementation of developmental projects that meet Ministry of Finance (SNIP) requirements. One challenge has been administrative turnover at the regional and local levels. End Comment.) To counter the pessimistic view, some analysts emphasize that the administrative capacity of the national government is no great shakes either, and that the best way to develop local capacity is by trial and error.

18. (SBU) The second concern is that the central government will transfer functions without transferring the financial resources or providing the technical training needed to carry them out -- implementing what amounts to an unfunded mandate. Many believe that, without such support, moves to decentralize will exacerbate strains on already overtaxed and underfunded government mechanisms, and almost inevitably result in failure. Finance Ministry official Carlos Casas told us recently that the current decentralization plan does not yet link functions to revenue streams, and that the central government was still contemplating various approaches to budgetary decentralization, including the transfer of certain kinds of tax authority from the central government to its regional counterparts. In response to concerns about the lack of technical training, the Prime Ministers office has pledged to contract ten experts per region to assist local officials manage the increased administrative burdens that

effective decentralization will bring. The Economic and Finance Ministry has also committed to opening offices in each region to help regional government and municipalities to develop projects. To date, seven such offices have been established.

Success Depends on Economic Decentralization

19. (SBU) The ultimate success of decentralization is likely to vary from region to region, largely as a function of the economic potential found there. President of Congress's Decentralization Committee, UN Congressman Juan Carlos Eguren, asserted to us recently that the government's primary focus on administrative, vice economic, decentralization was to put the cart before the horse. The trick, he said, was to generate poles of economic development throughout the country that can compete with Lima for investment, labor and human capital. (Many claim that Lima alone offers the kind of basic services network -- schools, hospitals etc. -- and multifaceted lifestyle options demanded by Peru's professional class.) Other analysts agree with this view, and argue that transferring administrative functions without fomenting economic development in the regions is like sailing into the wind. Peru's emerging agro-industrial regions such as Ica and the northern coast -- which have boomed economically, enjoyed close to full employment and begun drawing migrants away from Lima -- appear to bear this analysis out, suggesting grounds for incipient optimism on the decentralization of economic development. Other observers say that transferring administrative functions without building the larger structure of incentives needed for a region to thrive more generally was an incomplete strategy, particularly for politically vulnerable and volatile areas such as Puno, Apurimac and Ayacucho -- the heart of the southern sierras.

Comment: Decentralizing Blame

10. (SBU) The demand for more and better services throughout Peru's regions probably outstrips the ability of government,

at any level, to deliver -- at least in the short term. In that sense, by pursuing accelerated administrative decentralization, the Garcia government aims to minimize its responsibility, and to share the blame, for persistent discontent and inevitable social conflicts in newly "decentralized" regions. But if recent experience provides any indication, when the going gets tough regional and local leaders will seek to pass the hot potato back to the central government and quickly make themselves scarce. (Even Lima Mayor Luis Castaneda, a presumed 2011 Presidential hopeful, dropped conspicuously out of public view when pressure mounted around the Santa Anita market impasse -- Ref D). When that happens, the central government will likely assume the responsibility, or the blame, for whatever happens in the end.

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